

No.: 98-61
Date: December 2, 1998

FEDERAL HOUSING FINANCE BOARD

Interim Adjustments to the Five Year Strategic Plan For 1998-2002

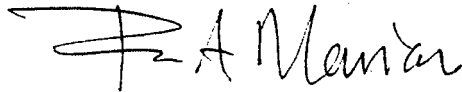
WHEREAS, in accordance with section 3 of the Government Performance and Results Act of 1993 (codified at 5 U.S.C. § 306) and Office of Management and Budget (OMB) Circular A- 11, Part 2, the Board of Directors of the Federal Housing Finance Board (Finance Board) approved a five-year strategic plan for the Finance Board covering the period from 1998 through 2002 by Resolution Number 97-65, dated September 29, 1997; and

WHEREAS, in accordance with section 210.2(d) of OMB Circular A-11, Part 2 (as revised on July 1, 1998), the Finance Board has determined that the 1998-2002 Five Year Strategic Plan requires selective adjustments.

NOW, THEREFORE, IT IS RESOLVED that the attached modified Finance Board Five Year Strategic Plan covering the period from 1998 through 2002 is hereby approved; and

IT IS FURTHER RESOLVED that the Five Year Strategic Plan approved by Resolution Number 97-65, dated September 29, 1997, is superceded.

By the Board of Directors of the
Federal Housing Finance Board



Bruce A. Morrison
Chairman

FEDERAL HOUSING



FINANCE BOARD

5 YEAR STRATEGIC PLAN

1998 - 2002



MISSION

**Ensure the safety and soundness of the
Federal Home Loan Banks, their
access to the capital markets, and the
accomplishment of their
congressionally defined housing
finance mission**

THE FEDERAL HOUSING FINANCE BOARD

The Federal Housing Finance Board (Finance Board) was established as an independent agency in the Executive Branch by the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989.

The Finance Board has supervisory authority and oversight responsibility for the twelve Federal Home Loan Banks (FHLBanks) and the Office of Finance. The Finance Board ensures the safety and soundness of the Bank System and housing finance mission, administers the Community Support Program and oversees the FHLBanks' financial performance and operations.

The Finance Board consists of a five-director board -- one of whom is the Secretary of Housing & Urban Development. The other four directors are appointed by the President and are subject to Senate confirmation. One of the directors is a "consumer/community" director. The current Finance Board directors are:

Chairman, Bruce A. Morrison (2/27/00)
Secretary Andrew M. Cuomo*
J. Timothy O'Neill (2/28/97)
Board Director, vacant (term expires 2/27/99)
Board Director, vacant (term expires 2/27/02)

*Secretary Cuomo has designated Assistant Secretary for Housing - Federal Housing Commissioner, William C. Apgar, Jr., to serve in his Board position.

The Finance Board directors are chosen from among people with extensive experience in housing finance or with a commitment to the provision of specialized housing credit. One director must be chosen from organizations representing consumer and community interests on banking services, credit needs, housing or consumer protection.

The Finance Board is supported by assessments from the twelve FHLBanks. The FHLBanks, in turn, finance their own operations by charging for credit products and services they provide to member institutions. No tax dollars or other appropriations are used to support the operations of the Finance Board or the FHLBank System.

November 1998

Federal Housing Finance Board Evaluation and Planning Process

The process of evaluating what needs to be accomplished over the next five years and planning the delivery of those accomplishments is one that has taken several avenues.

Over the past two years, the Federal Housing Finance Board (Finance Board) has engaged in intensive discussions, which have been both internal and external. Internally, the Finance Board Directors individually met with staff to develop a vision to guide the Finance Board in the achievement of its mission. Externally, the Finance Board sought and received comments from the FHLBank presidents and directors. The Finance Board used these meetings to find out how the FHLBanks, through their boards and management, viewed the efforts of the Finance Board and how they felt the Finance Board could better accomplish its mission.

The Board of Directors, individually, along with the managing director and staff, met with members of the FHLBank System beyond the industry directors through trade association meetings and other, more informal structures. Their input has been invaluable in developing this plan.

In addition, the Finance Board informally solicited opinions and ideas from the non-profit community, including the Housing Advisory Councils of the Federal Home Loan Banks and Washington-based representatives of affordable housing and neighborhood reinvestment interests.

The development of the strategic plan was advanced through meetings with senior managers and staff in general. The goals and objectives were derived from these meetings. The goals and objectives were an integral part of the budget planning process. Senior staff and the managing director were critical to the development of the performance measures, because they will be using them to create performance plans for their divisions and units. The Finance Board's Directors and assistants met to discuss the draft and to recommend changes for the final version.

Subsequent to the submission of the original draft version of the strategic plan in 1997, the Office of Management and Budget gave direction and guidance to the staff of the Finance Board, as did members of the staff of the Senate Banking Committee and the House Banking Committee. Finance Board directors and staff met with the FHLBank presidents to hear their comments on the draft plan. Staff held a conference call with the chairs and vice-chairs of the FHLBanks' boards to receive their input on the draft plan. Many of the comments and corrections suggested by congressional staff, FHLBanks' management and board representatives were incorporated into the final strategic plan.

The staff of the Finance Board continues to reach out to the FHLBanks, members of Congress and other interested parties as new issues arise. This revision of the September 30, 1997 Plan was developed in response to this outreach and in response to comments on the structure of the Plan in the GAO report of September 24, 1998 entitled "Actions Needed to Improve Regulatory Oversight."

GOAL I

Ensure Safety and Soundness of the FHLBanks

OBJECTIVE A

Examine 12 FHLBanks, the Office of Finance and FICO Annually for Safety and Soundness Compliance.

PERFORMANCE MEASURES

All FHLBanks, the Office of Finance, and FICO examined including Year 2000 issues (1998-1999) and exam reports delivered to the FHFB Board of Directors, all 12 FHLBanks, FICO and the Office of Finance. (Annually)

Additional staff trained in pilot review. (1999)

All pilots examined outside of regular exam process. (Ongoing)

Analyst hired to review monthly reports. (1999)

Maintain examiner corps. (Ongoing)

Examination manual reviewed by outside expert. (1999)

Examination manual distributed to FHLBanks. 1999)

Prompt resolution of disputed examination findings pursuant to Finance Board procedures. (Ongoing)

STRATEGIES AND INITIATIVES

The Federal Housing Finance Board (Finance Board) has developed an annual schedule for examinations, which remains constant. Examiners are deployed as necessary because each FHLBank is of a different asset size and have differing products and operations. Each Bank is examined in accordance with statutory and regulatory requirements. In 1999, significant staff, consultant and technology resources will be redirected to Y2K issues. As interest-rate risk is a major focus of the Office of Supervision, examiners will receive ongoing training on interest-rate risk assessment and in modeling that risk. In 1998, the Finance Board purchased a financial management model for use by examiners. The Examination Manual is in continuing review and adds an important management, supervision and communication tool for accomplishing the safety and soundness and mission goals. The Office of Supervision will be supported in its activities by the entire staff of the Finance Board, but most specifically and most regularly, by the Office of General Counsel and the Program Assistance Division of the Office of Policy.

GOAL I

Ensure Safety and Soundness of the FHLBanks

OBJECTIVE A

Examine 12 FHLBanks, the Office of Finance and FICO Annually for Safety and Soundness Compliance.

STRATEGIES AND INITIATIVES (CONTINUED)

The Finance Board will work with other regulatory agencies through informal meetings to maximize education about risk assessment, including strategic risk, and methodologies. The Office of Supervision will report to the board of directors of the Finance Board and the boards of directors of each FHLBank and the Office of Finance and FICO on examination findings.

KEY FACTOR

The competitive employment environment may have an impact on the Finance Board's ability to recruit and retain an adequate and stable examiner corps.

GOAL I

Ensure Safety and Soundness of the FHLBanks

OBJECTIVE B

Replace financial management policy with flexible financial management regulations, which address risk parameters and non-mission investment and ensure AAA rating of FHLBank debt.

PERFORMANCE MEASURES

Proposal published in the Federal Register. (1999)

Comments reviewed and incorporated as appropriate. (1999)

Final regulations published in the Federal Register. (1999)

Final regulations implemented. (1999)

STRATEGIES AND INITIATIVES

The Finance Board through its Office of General Counsel and Office of Policy will analyze comments received on the Financial Management Policy and implement a process to receive further comment on substance and scope of a more flexible approach to guiding the FHLBanks in their management of risk. The Finance Board will develop a proposed regulation for comment and, after review and further analysis, develop a final regulation for promulgation.

KEY FACTOR

Board approval is needed.

GOAL I

Ensure Safety and Soundness of the FHLBanks

OBJECTIVE C

Establish a risk-based capital structure providing appropriate permanence, flexibility and leverage which includes seeking appropriate legislative changes.

PERFORMANCE MEASURES

Proposed risk-based capital structure regulation published in Federal Register. (1999)

Final regulation published. (2000)

STRATEGIES AND INITIATIVES

The Finance Board has been working closely with the FHLBanks, their trade council, other trade groups, and other representatives of the Administration to educate members of Congress and others about the need for changes to the capital structure of the system. The Finance Board will continue this work as well as committing resources to regulatory changes.

KEY FACTOR

Board approval is needed.

GOAL I

Ensure Safety and Soundness of the FHLBanks

OBJECTIVE D

Monitor the FHLBanks for compliance with Finance Board rules, regulations and policy guidelines and provide technical assistance where appropriate.

PERFORMANCE MEASURES

Written procedures for responding to all requests for interpretations of regulations, policies and rules developed by Finance Board staff. (Ongoing)

Training and technical assistance on all aspects of program and policy compliance, including financial management guidelines, Affordable Housing Program, Community Investment Program, Community Support Program, membership, elections of industry directors, and mission accomplishment will be provided to the FHLBanks. (Ongoing)

STRATEGIES AND INITIATIVES

The Finance Board through the Office of Policy, supported by the Office of General Counsel, and in coordination with the Office of Supervision will monitor and provide compliance assistance as needed to FHLBank management and staff. Finance Board staff will analyze data provided by the FHLBanks to assess compliance with statute, regulations, policies and guidelines.

KEY FACTOR

As more management responsibilities are devolved to the 12 FHLBanks, there will be an increased need to provide training as well as technical assistance to FHLBank staff.

GOAL I

Ensure Safety and Soundness of the FHLBank

OBJECTIVE E

Develop devolution regulations and amendments to regulations related to safety and soundness and administrative and management functions of FHLBanks.

PERFORMANCE MEASURES

Proposed regulations published in the Federal Register. (1998- 1999)

Comments received and incorporated as appropriate. (1998- 1999)

Final regulations published in the Federal Register. (1999)

Final regulations implemented. (2000)

STRATEGIES AND INITIATIVES

The Finance Board, through the Office of General Counsel and the Office of Policy, will develop the necessary amendments to existing regulations and any new regulations that are needed to devolve to the FHLBanks, the administrative and management functions that have been housed at the Finance Board. The proposals will be prepared for a vote of the Directors of the Finance Board and, if approved, the proposal will be published in the Federal Register for comment. Comments will be reviewed and analyzed and final amendments and regulations will be produced for Board vote.

KEY FACTOR

Board approval is needed.

GOAL II

Ensure Accomplishment of Congressionally Defined Housing Finance Mission by the FHLBanks

OBJECTIVE A

Implementation of a system for ensuring mission achievement.¹

PERFORMANCE MEASURES

Review and analyze a cost-benefit study of the FHLBanks, which includes input from FHLBanks, their members, and other interested parties. (1999)

Recommend an appropriate methodology for measuring mission achievement to Board of Directors. (1999)

Proposed rule published in Federal Register. (1999)

Comments received and incorporated as appropriate. (1999)

Final regulation published in Federal Register. (1999)

Methodology implemented. (1999)

STRATEGIES AND INITIATIVES

With the Office of Policy in the lead, supported by the Office of Supervision and the Office of General Counsel, the Finance Board has contracted for a cost-benefit study of the FHLBank System. The Request for Proposal for the study asked for quantitative answers that are needed to make long-term decisions about how to measure mission achievement by the FHLBank. In addition (see Goal I, Objective B), staff will develop a proposed regulation limiting FHLBank investment in money market investments to be published in the Federal Register. Although this is a separate initiative, it is designed to ensure that the FHLBanks' GSE funding advantage is primarily used to support mission-related activities.

KEY FACTOR

The mission achievement measurement regulation and the Financial Management regulation will work in tandem. Both regulations will have to be approved by the Board of Directors.

¹ For non-mission related investment limitation see Goal I, Objective B supra.

GOAL II

Ensure Accomplishment of Congressionally Defined Housing Finance Mission by the
FHLBanks

OBJECTIVE B

Monitor and examine FHLBanks for achievement of mission.

PERFORMANCE MEASURES

Examiners trained in mission goals and compliance methodology. (1999)

All FHLBanks examined for mission achievement and examination reports delivered to FHF Board of Directors and FHLBanks. (2000 and annually thereafter)

STRATEGIES AND INITIATIVES

Working in coordination with the Office of Policy, the Office of Supervision will monitor and examine the FHLBanks using the mission achievement methodology developed in Objective A.

KEY FACTOR

This objective relies on implementation of Objective A.

GOAL II

Ensure Accomplishment of Congressionally Defined Housing Finance Mission by the FHLBanks

OBJECTIVE C

Provide technical assistance and regulatory guidance to FHLBanks on the development of new products and services to meet mission standards outlined in Financial Management Regulation,

PERFORMANCE MEASURES

Appropriate approval of pilot programs. (Ongoing)

Review of pilots to assure compliance with approval criteria and to evaluate their performance. (Ongoing)

Policy changes to facilitate the development of products and services by the FHLBanks. (Ongoing)

FHLBank members using new products and services, including appropriate mission-related investments, in their communities. (Ongoing)

Increase in FHLBank mission-related assets. (Ongoing)

STRATEGIES AND INITIATIVES

The Office of Policy and the Office of General Counsel will provide support for policy initiatives. In concurrence with the Office of Supervision, the Office of Policy and the Office of General Counsel will monitor new product implementation for compliance with all aspects of the Financial Management Regulation. The Office of Policy will provide assistance to the FHLBanks in the area of pilot programs.

KEY FACTOR

Economic and political factors will affect the implementation of this objective. The performance of existing pilot programs will also impact this objective.

*** Goal and objectives will not change in years 1999-2002

GOAL II

Ensure Accomplishment of Congressionally Defined Housing Finance Mission by the FHLBanks

OBJECTIVE D

Identification and broad dissemination of appropriate ways for the FHLBanks to achieve their housing finance mission through communication with Congress and various publics through a variety of media, including particular efforts to promote targeted community' investment, including economic development lending, by FHLBanks.

PERFORMANCE MEASURES

Provide assistance to the FHLBanks on developing their community lending plans required by CICA. (1999 and ongoing)

FHLBanks using additional products and methods to meet their members housing finance and community investment credit needs. (Ongoing)

Website redesigned. (1999)

STRATEGIES AND INITIATIVES

Through meetings with FHLBank' trade council, FHLBank staff, chairs and other directors of the FHLBanks, trade associations, other experts and end users in communities, the Office of Policy will explore new methods and emerging ideas and serve as a clearinghouse and communicator of methods and ideas for the FHLBanks. The staff will collect, analyze, and disseminate information through its written and electronic publications.

KEY FACTOR

Economic factors and human resources deployment will affect the ability of the Finance Board to deliver on this objective.

GOAL III

Ensure Access to Capital Markets

OBJECTIVE

Monitor Office of Finance debt issuance.

PERFORMANCE MEASURES

Monthly data from FHLBanks reviewed and reported to Managing Director of Finance Board.

Debt issuance devolved to FHLBank through work with Congress. (Ongoing)

Amendment to regulation governing Office of Finance which transfers preparation and issuance of FHLBank System Financial Statement to Office of Finance. (1999)

STRATEGIES AND INITIATIVES

The Office of Supervision and the Office of Policy will work in concert to monitor compliance, analyze findings, and make recommendations to the Finance Board. The Office of Policy in consultation with the Office of General Counsel will effect an orderly transfer of responsibility for issuance of the FHLBank System Financial Statements from the Finance Board to the Office of Finance.

KEY FACTOR

The devolution of the management of the Office of Finance to the FHLBanks will be dependent on congressional action.

No: 98-63
Date: December 2, 1998

FEDERAL HOUSING FINANCE BOARD

Establishment of Base Salary Caps
For the Federal Home Loan Bank Presidents for 1999

WHEREAS, section 12(a) of the Federal Home Loan Bank Act (Bank Act) provides that each Federal Home Loan Bank (Bank) may fix the compensation of its employees, subject to approval of the Federal Housing Finance Board (Finance Board), 12 U.S.C. § 1432(a); and

WHEREAS, on January 2, 1997, the Finance Board published a final rule amending its existing regulation governing the compensation of Bank employees (Compensation regulation), 61 FR2 (Jan. 2, 1997), 12 CFR 932.41; and

WHEREAS, section 932.41(b)(1)(i) of the Compensation regulation requires the Finance Board annually by November 30 to determine and publish caps on the base salary paid to each of the 12 Bank Presidents for the subsequent calendar year, 12 C.F.R. § 932.41(b)(1)(i); and

WHEREAS, section 932.41(b)(1)(ii) of the Compensation regulation provides that the base salary cap for each Bank shall be based on the average base salary of a Chief Executive Officer (CEO) of a subsidiary financial institution in the Bank's primary metropolitan statistical area (PMSA) with an asset size comparable to that of the Bank, as of June of the prior year, reduced by five percent and rounded to the nearest \$5,000, id. § 932.41(b)(1)(i); and

WHEREAS, in establishing the base salary caps for the Bank Presidents for 1999 in accordance with the regulation, the Finance Board staff has found regional salary data for CEO comparator positions of subsidiary financial institutions with comparable asset size to be very limited, and in one case unavailable, and that, therefore, there is not a reliable methodology to establish base salary caps for the Bank Presidents based on regional data; and

WHEREAS, salary survey data based on nationwide comparisons of CEO salaries at subsidiary financial institutions comparable in asset size to the Banks are available; and

WHEREAS, the five percent reduction of average base salary in section 932.41(b)(1)(ii) of the Compensation regulation was included in the calculation of the salary caps to reflect the public purpose of the Banks; and

WHEREAS, section 902.6 of the Finance Board's regulations provides that the Finance Board reserves the right, in its discretion and in connection with a particular transaction, to waive any provision, restriction, or requirement of its regulations, or any required submission of information, not otherwise required by law, if such waiver is not inconsistent with the law and does not adversely affect any substantial existing rights, upon a determination by the Finance

Board that application of the provision, restriction, or requirement would adversely affect achievement of the purposes of the Bank Act, or upon a showing of good cause, id. §902.6; and

WHEREAS, the Finance Board was not able to consider the 1999 FHLBank Presidents' salary caps prior to its December 2, 1998 meeting, and therefore good cause exists for waiving the November 30, 1998, publication date; and

WHEREAS, the PMSA geographic limitation and the five percent reduction in average base salary in section 932.41(b)(1)(ii) of the Compensation regulation are regulatory requirements established by the Finance Board but not required by the Bank Act or other law; and

WHEREAS, the Finance Board has obtained updated salary survey data based on nationwide comparisons of CEO positions at subsidiary financial institutions comparable in asset size to the Banks; and

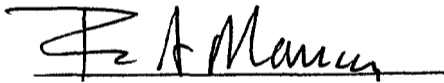
WHEREAS, waiver of the PMSA geographic limitation in section 932.41(b)(1)(ii) of the Compensation regulation and the use of national data in lieu thereof is not otherwise inconsistent with law and would not adversely affect substantial existing rights of any party; and

WHEREAS, waiver of the five percent reduction in average base salary is not otherwise inconsistent with law and would not adversely affect substantial existing rights of any party;

NOW, THEREFORE, BE IT RESOLVED, the Finance Board, for good cause, hereby waives the November 30, 1998, publication date, the PMSA geographic limitation, and the five percent reduction in average base salary in section 932.41(b)(1)(i) and (ii) of the Compensation regulation for purposes of establishing and publishing the Bank Presidents' base salary caps for 1999; and

FURTHER RESOLVED, that the Finance Board hereby establishes the base salary caps for the Bank Presidents for 1999 which are set forth in Attachment 1.

By the Board of Directors of the
Federal Housing Finance Board


Bruce A. Morrison, Chairman
Chairman

Attachment

ATTACHMENT 1

FEDERAL HOME LOAN BANK PRESIDENTS
1999 BASE SALARY CAPS

FHLBANK	1999 BASE SALARY CAP
BOSTON	\$345,000
NEW YORK	\$345,000
PITTSBURGH	\$345,000
ATLANTA	\$345,000
CINCINNATI	\$345,000
INDIANAPOLIS	\$345,000
CHICAGO	\$345,000
DES MOINES	\$345,000
DALLAS	\$345,000
TOPEKA	\$345,000
SAN FRANCISCO	\$375,000
SEATTLE	\$345,000